

Message Text

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44-L

ACTION EA-14

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FM AMEMBASSY SAIGON

TO SECSTATE WASHDC PRIORITY 4787

INFO AMEMBASSY PHNOM PENH

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C O N F I D E N T I A L SAIGON 12985

JOINT STATE/AID MESSAGE

PASS COOPER NSC

AID FOR NOOTER

E.O. 11652: GDS

TAGS: EAGR, VS

SUBJECT: RICE SITUATION COULD UNDERMINE ECONOMIC POLICIES

REF: SAIGON 12661

1. SUMMARY. WITH SAIGON RICE PRICES UP 25 PERCENT IN PAST MONTH, PADDY PRICES RISING RAPIDLY, RICE TRADE DEEPLY CONCERNED ABOUT WORLD-WIDE RICE SHORTAGES AND ALL ESTIMATES INDICATING RICE SUPPLIES IN SOUTH VIETNAM WILL BE BELOW MINIMAL LEVELS IN NOVEMBER BEFORE NEW CROP US RICE AVAILABLE, RICE IS MOST CRITICAL FACTOR IN LEGITIMATE GVN CONCERN WITH RAPID PRICE INFLATION AND SHORTAGE OF EXTERNAL ASSISTANCE. THESE CONCERNS UNDERLIE RECONSIDERATION BASIC GVN POLICIES OF PAST FEW YEARS WHICH EMPHASIZE MARKET ALLOCATION OF RESOURCES AND INCREASED RELIANCE ON PRIVATE SECTOR WHILE REMOVING CORRUPTION-BREEDING
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GOVERNMENT CONTROLS. NGOC, WHO MOST ARTICULATE SPOKESMAN FOR

CONTINUING OPEN ECONOMIC POLICIES, IS DIRECTLY RESPONSIBLE FOR RICE POLICY AND DIFFICULT RICE SITUATION COUPLED WITH ABSENCE US ACTION TO IMPROVE RICE SITUATION ERODES HIS POSITION, JUST AT TIME WHEN CONTINUATION PRODUCTION AND MARKET ORIENTED ECONOMIC POLICIES MOST UNDER FIRE. WHEN WHAT IS NEEDED IS ADDITIONAL EARLY RICE SUPPLY FROM OUTSIDE, REQUIREMENT MAKE ADDITIONAL RICE AVAILABLE TO CAMBODIA WOULD NOT ONLY MAKE ALREADY DIFFICULT VN RICE SITUATION FAR WORSE BUT MIGHT BE STRAW THAT BREAKS BACK OF NGO'S EFFORTS TO MAINTAIN CORRECT ECONOMIC POLICIES. END SUMMARY.

2. RICE PRICE INCREASES ARE MAJOR LEADING FACTOR IN CURRENT INFLATIONARY SPIRAL. SAIGON PRICES ARE UP 31 PERCENT THUS FAR IN 1973 -- AN ANNUAL RATE OF 65 PER CENT OR ABOUT THE LEVEL DURING EARLIER PERIOD WHEN RAPID PRICE INCREASES WERE CONSIDERED ECONOMIC CRISIS. RICE PRICE INCREASES DURING PAST MONTH HAVE BEEN 25 PERCENT IN SAIGON AND 30 PERCENT IN CENTRAL VIETNAM PADDY PRICES HAVE ALSO BEEN RISING STEEPLY. SAIGON RICE PRICE IS UP ABOUT 40 PERCENT THUS FAR IN 1973. PL-480 RICE PRICE BEING RAISED AGAIN THIS WEEK TO RESTORE EQUILIBRIUM WITH LOCAL RICE PRICES. INFLATIONARY SQUEEZE HAS BEEN PARTICULARLY GREAT ON PUBLIC SECTOR EMPLOYEES INCLUDING MILITARY WITH PRICES UP MORE THAN A THIRD SINCE LAST PAY INCREASE. AT LEAST TWO DEMONSTRATIONS IN MR 1 APPEAR TO HAVE BEEN RELATED CHIEFLY TO PRICE INCREASES.

3. UNDERLYING CAUSES RAPID RICE PRICE INCREASES NOT COMPLETELY CLEAR. OUR PROJECTIONS OF STOCK LEVELS (JUNE SITREP FOLLOWS TOMORROW WILL SHOW NO SUBSTANTIAL CHANGE FROM LAST MONTH) INDICATE STOCKS AT END NOVEMBER BEFORE NEW CROP US RICE ARRIVES WILL BE ABOUT 25,000 TONS. THIS IS BELOW MINIMAL LEVEL BECAUSE EVEN DISTRIBUTION NOT POSSIBLE, ESPECIALLY TO CENTRAL VIETNAM, THUS SOME AREAS WOULD HAVE NO RICE BY NOVEMBER. MOREOVER, TRADE PROBABLY HAS SOMEWHAT MORE PESSIMISTIC ESTIMATE SITUATION. BAN ON THAI RICE EXPORTS, WIDESPREAD REPORTS OF WORLD-WIDE RICE SHORTAGE, AND RECENT HIGH PRICES OF PRICE IN NEARBY MARKETS CONTRIBUTE TO CONCERN WITH VN SITUATION. ACCORDING REPORTS HERE HONG KONG RICE PRICE ROSE FROM 120 HK DOLLARS FOR 100 KILOS TO 450 WITHIN THREE DAYS FOLLOWING THAI BAN AND PRICE HAS SINCE DROPPED ONLY MODESTLY. NOT YET SEEN ARRIVAL REPLACEMENT RICE DIVERTED FROM KOREA OR EVEN FINALIZATION ARRANGEMENT (SEPTEL) THERE ARE ALSO WIDESPREAD REPORTS THAT RICE IS MOVING TO CAMBODIA ILLEGALLY ACROSS BORDER BECAUSE

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OF SHORTAGES IN BORDER AREAS DESPITE LOWER OFFICIAL PRICE IN PHNOM PENH. SOME SOURCES INDICATE THESE MOVEMENTS TO CAMBODIA HAVE BEEN SUFFICIENT TO REDUCE DELTA DELIVERIES TO SAIGON DURING PAST COUPLE OF WEEKS. VAT HAS INFLUENCED RICE PRICES IN PAST FEW WEEKS BUT CLEARLY IS NOT PRIMARY FACTOR IN CURRENT PRICE INCREASES.

4. RICE SUPPLY AND PRICE SITUATION IS NOT ONLY SERIOUS IN ITSELF AND BECAUSE EFFECT ON OTHER PRICES BUT ALSO BECAUSE IT IS CAUSING

BASIC RECONSIDERATION MARKET-ORIENTED POLICIES WHICH GVN HAS PURSUED DURING PAST FEW YEARS. REFTEL REPORTS MAJOR MOVES TO REVERSE COURSE ECONOMIC POLICIES. IN INTERNAL STRUGGLE OVER ECONOMIC POLICY MINISTER OF ECONOMY NGOC CONTINUES TO BE PRIMARY PROPONENT ECONOMIC POLICIES WE BELIEVE LAY BASIS FOR RAPID RECONSTRUCTION AND DEVELOPMENT AND WILL GENERATE MAXIMUM SUPPORT FROM US CONGRESS AND OTHER DONORS. NGOC DIRECTLY RESPONSIBLE FOR RICE. HAS RECEIVED MAJOR CREDIT FOR SUCCESSFUL RICE POLICIES OF PAST FEW YEARS, BUT NOW IS COMING UNDER FIRE FOR CURRENT RICE PROBLEMS. HIS POSITION ALREADY WEAKENED BY HIS AGREEMENT SEND 20,000 TONS RICE TO CAMBODIA AND US INABILITY PROMISE ADDITIONAL RICE IMPORTS IN NEXT THREE MONTHS. ADDITIONAL US COMMITMENT SUBSTANTIAL RICE DELIVERIES FURING REMAINDER 1973 WITH 20 TO 40 THOUSAND TONS BEFORE DECEMBER IS NEEDED NOW TO LIMIT SPECULATION AND CONTINUED RICE PRICE RUN-UPS AND TO STRENGTHEN NGOC AND MARKET-ORIENTED, PRIVATE ENTERPRISE POLICIES HE FAVORS.

5. WE HAVE LEARNED FROM BUSHNELL THAT ADDITIONAL RICE SHIPMENT TO CAMBODIA BEING CONSIDERED IN WASHINGTON. WHILE WE SYMPATHETIC TO DIFFICULT SITUATION IN PHNOM PENH, WE BELIEVE FULL IMPACT IN VIETNAM OF ANY SUCH SHIPMENTS MUST BE GIVEN FULL CONSIDERATION. ISSUE IS NOT JUST THAT PHNOM PENH MIGHT RUN OUT OF RICE SLIGHTLY BEFORE VIETNAM BUT THE EFFECT OF FURTHER DIVERSIONS ON BOTH VIETNAM RICE PRICE AND SUPPLIES AND MORE IMPORTANTLY EFFECT ON BASIC ECONOMIC POLICIES IN VIETNAM

6. STRONGLY RECOMMEND RICE FOR PHNOM PENH BE PURCHASED THAILAND OR ELSEWHERE AND THAT PRIORITY ATTENTION BE GIVEN TO PROVIDING VIETNAM WITH ASSURANCES ADDITIONAL RICE WITH SOME DELIVERIES BEFORE DECEMBER.
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